

VILLAGE OF KEY BISCAYNE, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2003

Prepared by:

THE FINANCE DEPARTMENT

VILLAGE OF KEY BISCAYNE, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2002

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INTRODUCTORY SECTION



V I L L A G E O F K E Y B I S C A Y N E

Village Council

Robert Oldakowski, *Mayor*

Jorge E. Mendia, *Vice Mayor*

Martha Fdez-León Broucek

Carol Diaz-Castro

Mortimer Fried

James L. Peters

Robert L. Vernon

March 5, 2004

To the Honorable Mayor, Members of the Village
Council and Citizens of the Village of Key Biscayne:

The Government Finance Officers Association (GFOA) recommends that all units of local government publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) in the United States and audited in accordance with auditing standards generally accepted in the United States and in accordance with Government Auditing Standards by a firm of licensed certified public accountants. Pursuant to that recommendation, we hereby issue the comprehensive annual financial report of the Village of Key Biscayne for the fiscal year ended September 30, 2003.

This report consists of management's representation concerning the finances of the Village of Key Biscayne. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Village of Key Biscayne has established a comprehensive internal framework that is designed both to protect the Village's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Village of Key Biscayne's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Village of Key Biscayne's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The firm of Rachlin Cohen & Holtz LLP, licensed certified public accountants has audited the Village of Key Biscayne's financial statements. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the Village of Key Biscayne for the fiscal year ended September 30, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amount and

Honorable Mayor, Village Council and Citizens
Village of Key Biscayne

disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Village of Key Biscayne's financial statements for the fiscal year ended September 30, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The Village of Key Biscayne's MD&A can be found immediately following the report of the independent certified public accountants.

Profile of the Government

The Village of Key Biscayne, incorporated in 1991, is located on the southern most barrier island of the United States, Miami-Dade County, Florida approximately 7.5 miles off the coast of Miami, Florida. The Village of Key Biscayne occupies a land area of 1.25 square miles situated between Crandon Park and Bill Baggs State Recreation Area. The Village serves a population of approximately 11,100. The Village of Key Biscayne receives tax levies on real and personal property located inside its boundaries.

The Village of Key Biscayne has operated under the council-manager form of government since incorporation. Policymaking and legislative authority are vested in a governing council consisting of the mayor and six other council members. The Council is responsible among other things, for passing ordinances and resolutions, adopting the annual budget, appointing the Village Manager and Village Clerk. The Village Manager is responsible for carrying out the policies and ordinances of the Council, for overseeing the daily operations of the government, and for appointing the heads of various departments.

The Village of Key Biscayne offers a wide range of services, including, police protection, fire and emergency medical service, public works maintenance, a full service building, planning and zoning department, parks and recreation activities, solid waste collection, and a comprehensive storm water management system. Certain services are provided through the County School System and the County Library System through Miami-Dade County.

The annual budget serves as a foundation for the Village of Key Biscayne's financial planning and control. All departments of the Village are required to submit requests for appropriations to the Village Manager and these requests are the initiation of developing the proposed budget. The

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Village of Key Biscayne

Village Manager then presents this proposed budget to the Council for review. The Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than September 30, the close of the Village's fiscal year. The appropriated budget is prepared by fund and department. No department may legally expend in excess of the amount appropriated for that department within an individual fund. The Village Manager may make transfers of appropriations within a department. Transfers of appropriations between departments or between funds require the approval of the Village Council. The Village Council approves supplemental appropriations. Budget to actual comparisons are provided in this report for the general fund for which an appropriated annual budget has been adopted. The general fund budget to actual report, is presented in the required supplemental information section of this report.

Factors Affecting Financial Condition

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment with which the Village of Key Biscayne operates.

Local Economy

The Village of Key Biscayne enjoys a favorable economic environment and local indicators to continued future stability. This exclusive community is comprised of well-educated and involved citizens who take a genuine interest in the social, business, cultural and governing aspects of their Village. The Village is comprised of affluent exclusive residential housing stock and three major shopping centers. There is no industrial area in the community.

Long-Term Financial Planning

The Village has recently completed the first two phases of its Civic Center Project with the completion of a new Village Hall / Police Building and a new Fire Station. The third phase, presently under construction, will serve as the Village Community Center and is scheduled to open in the fall of 2004. Recent completion of the Beach Park serves as an outlet to the beach with a picnic shelter. Several public works projects have recently been completed yielding new sidewalks, street improvements, park improvements, and a tree replacement program. Several new capital projects are under way to improve the safety of the major roadway through the Village, Crandon Boulevard.

The Village utilizes a comprehensive living projection five years into the future to assess revenue trends and expenditure needs to assure a balanced stable financial program avoiding millage rate increases while addressing the various goals and objectives of the community.

Honorable Mayor, Village Council and Citizens
Village of Key Biscayne

Cash Management Policies and Practices

The Village's Cash Management strategy emphasizes immediate funds collection and deposit into the appropriate fund utilizing ACH debit or wire transfer methods for over 90% of all funds received. Cash is transferred to a centralized clearing account for all payments at the time of payment. The clearing account maintains a zero balance exclusive of these transfers. Currently the Village's investment policy follows Chapter 218, Florida Statutes. Cash in any of the fund's operating accounts are swept into an overnight repurchase agreement, properly collateralized in accordance with Chapter 280, Florida statutes. Surplus cash is invested in certificates of deposit held in qualified depositories, and with the State Board of Administration. Investment objectives are the preservation of principal, liquidity in accordance with planned cash flows, and return on investment, in that order.

Risk Management

The Village is exposed to various risks of loss related to torts, theft of or damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village participates in the Florida League of Cities Municipal Insurance Trust for workers' compensation, liability and property insurance. Flood insurance is provided by the Florida State Flood Insurance Pool.

Pension and Other Post-Employment Benefits

The Village of Key Biscayne sponsors a 401(a) defined contribution pension plan with the International City Managers' Association Retirement Corporation (ICMA RC). Each full time employee can contribute up to six percent (6%) of his or her pay to the plan while the Village contributes twelve percent (12%). In addition, the Village sponsors a 457 deferred compensation plan in which the employees may contribute on a voluntary basis.

A defined benefit plan is available to all firefighters and sworn police officers. This plan is under the direction of a separate board of trustees, two of which are police and fire department employees. Complete details of this plan can be found in Note 11 of the basic financial statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Village of Key Biscayne for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2002. This was the eleventh consecutive year that the Village received this prestigious award. In order to be

Honorable Mayor, Village Council and Citizens
Village of Key Biscayne

awarded a Certificate of Achievement, the Village published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

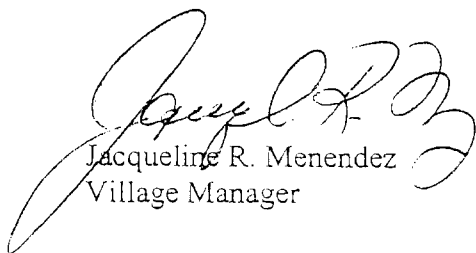
The Village of Key Biscayne is presenting its first CAFR in accordance with the Governmental Accounting Standards Board Statement Number 34, more commonly known as GASB 34, a major new standard, which has changed the method and content governments must report. This has been the largest single revision of governmental accounting standards and represented a major effort on the part of the Village and their auditors to comply with this new standard.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

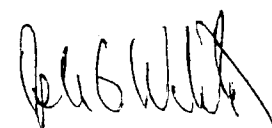
In addition, the Village also received the GFOA's Distinguished Budget presentation Award for its annual budget document for the 2002-2003 fiscal year. This was the tenth consecutive year that the Village has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the Village's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of all departments of the Village of Key Biscayne. We would like to express our appreciation to all members of all of the departments who assisted and contributed to the preparation of this report. A special note of thanks and appreciation is also extended to the firm of Rachlin Cohen & Holtz LLP for their assistance in the preparation of this CAFR and for the professional approach and high standards in conduct of their independent audit of the Village's financial records and transactions. Appreciation is also extended to the Mayor and the Village Council for their unfailing support for maintaining the highest standards of professionalism in the management of the Village of Key Biscayne's finances.

Respectfully submitted,



Jacqueline R. Menendez
Village Manager



Randolph G. White
Finance Director

VILLAGE OF KEY BISCAYNE, FLORIDA

VILLAGE OFFICIALS

SEPTEMBER 30, 2003

VILLAGE COUNCIL

Robert Oldakowski, Mayor
Jorge Mendia, Vice Mayor

Martha Fdez-Leon Broucek
Carol Diaz Castro
Mortimer Fried
James L. Peters
Robert Vernon

VILLAGE MANAGER

Jacqueline R. Menendez

VILLAGE CLERK

Conchita H. Alvarez, CMC

VILLAGE ATTORNEY

Weiss, Serota, Helfman, Pastoriza & Guedes, P.A.

FINANCE DIRECTOR

Randolph G. White, P.A.

VILLAGE AUDITORS

Rachlin Cohen & Holtz LLP
Accountants • Advisors

**VOTERS OF
KEY BISCAIYNE**

**Village
Council**

Local Planning
Agency

Village Clerk

Special Master

Village Manager

Village Attorney

Police/Fire
Retirement
Board

Assistant
Manager

Department of
Building,
Zoning and
Planning

Public Safety
Department

Department of
Parks and
Recreation

Department of
Public
Works

Department of
Finance and
Administrative
Services

Building

Fire Rescue

Special Events

Village Engineer

Finance/
Accounting

Zoning

Police

Sports and
Athletics

Contract
Supervisor

Personnel/
Benefits

Planning

Programs
and Tours

Stormwater
Management

Risk
Management

Code Assistance

Senior
Coordinator

Refuse
Collection
and Recycling

Maintenance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Village of Key Biscayne,
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



FINANCIAL SECTION

**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor, Village Council and Village Manager
Village of Key Biscayne, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Key Biscayne, Florida (the Village) as of September 30, 2003 and for the year then ended, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Key Biscayne, Florida at September 30, 2003 and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

As described in Note 1 to the basic financial statements, the Village adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments*. This results in a change in the format and content of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 26, 2003 on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Honorable Mayor, Village Council and Village Manager
Village of Key Biscayne, Florida
Page Two

The Management's Discussion and Analysis and the other required supplementary information on pages 3 through 10 and pages 40 through 43, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Key Biscayne's basic financial statements. The accompanying combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Village. Similarly, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information shown in the statistical section listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion thereon.

Rachlin Cohen & Holtz LLP

Miami, Florida
December 26, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Management's Discussion and Analysis

As Management of the Village of Key Biscayne, we offer readers of the Village of Key Biscayne's (the Village) financial statements this narrative overview and analysis of the financial activities of the Village of Key Biscayne for the fiscal year ended September 30, 2003.

Financial Highlights

- In the government-wide financial statements, the assets of the Village of Key Biscayne exceeded its liabilities at the close of the most recent fiscal year by \$31,636,099 (net assets).
- In the government-wide financial statements, the Village's total net assets decreased by \$2,394,537. This decrease is attributable to the spending of cash on various construction related projects and the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.
- At the close of the current fiscal year, the Village of Key Biscayne's governmental funds reported an ending fund balance of \$5,071,733, a decrease of \$2,052,786 in comparison with the prior year. This entire amount is either reserved or designated for spending at the Council's direction.
- The Village incurred \$1,660,090 of new long-term debt during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Village of Key Biscayne's basic financial statements. The Village of Key Biscayne's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Village of Key Biscayne's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the Village of Key Biscayne's assets and liabilities, with a difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village of Key Biscayne is improving or deteriorating.

The statement of activities presents information showing how the Village's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village of Key Biscayne that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities). The governmental activities of the Village of Key Biscayne include

general government, public safety, public works, building planning & zoning, and parks and recreation. The government-wide financial statements include only the Village of Key Biscayne itself as the Village does not have any component units that it is financially accountable for (known as the primary government).

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Key Biscayne, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Village of Key Biscayne has two fund categories, the governmental funds and the enterprise funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statement focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Village's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Village of Key Biscayne maintains four governmental funds, the general fund, a special revenue fund and two capital projects funds. The Village of Key Biscayne adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13 to 15 of this report.

Proprietary Funds. The Village maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its Stormwater, Solid Waste Collection and Sanitary Sewer Construction operations.

The basic proprietary fund financial statements can be found on pages 16 to 18 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for enterprise funds. The Village maintains one fiduciary fund to account for the enterprise operation of its Police Officers and Firefighters Defined Benefit Pension Plan.

The basic fiduciary fund financial statements can be found on pages 19 and 20 of this report.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21 to 39 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found on pages 40 to 43 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village's, assets exceeded liabilities by \$31,636,099 at the close of the most recent fiscal year.

A portion of the Village's net assets, \$25,913,756 or 82.7 %, reflects its investment in capital assets (e.g., land and equipment) less any related debt to acquire those assets that is still outstanding. The Village of Key Biscayne uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Our analysis of the financial statements of the Village begins below. The statement of net assets and the statement of activities report information about the Village's activities that will help answer questions about the position of the Village. As this is the first year that the Village is presenting government-wide statements, no comparison to the prior year is being shown. A comparative analysis will be provided when prior year information is available.

Net Assets

A summary of the Village's net assets is presented in Table A-1 and a summary of the changes in net assets is presented in Table A-2.

Table A-1
Summary of net assets

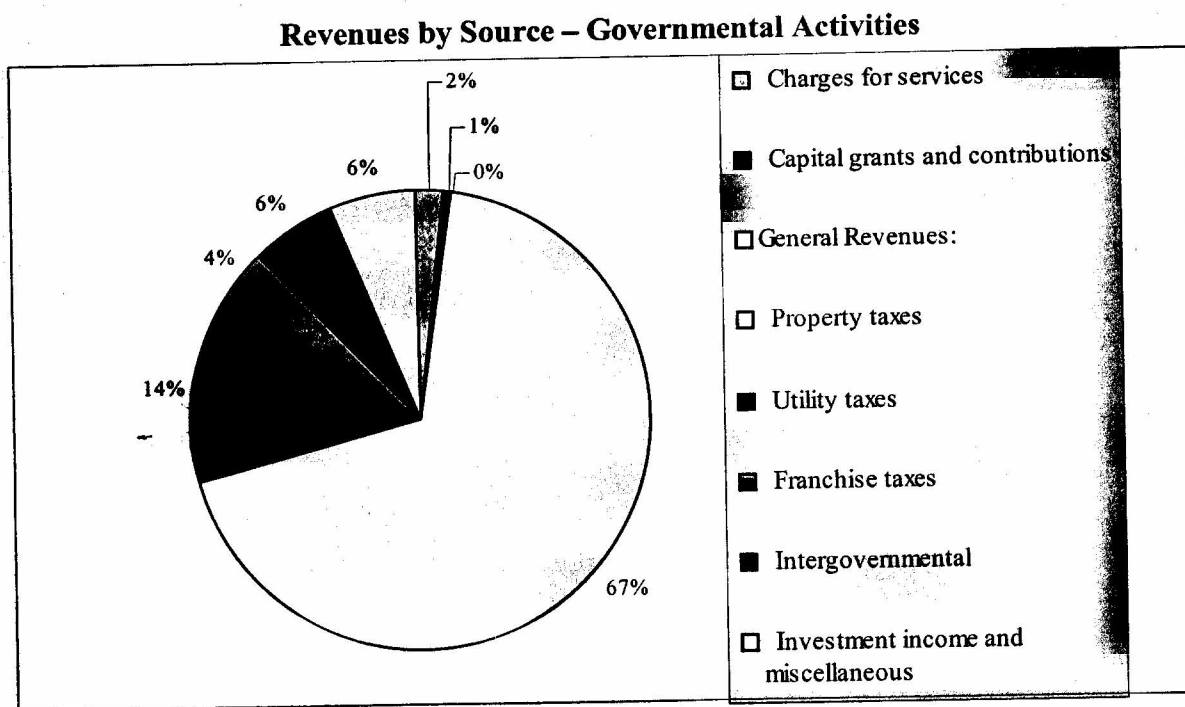
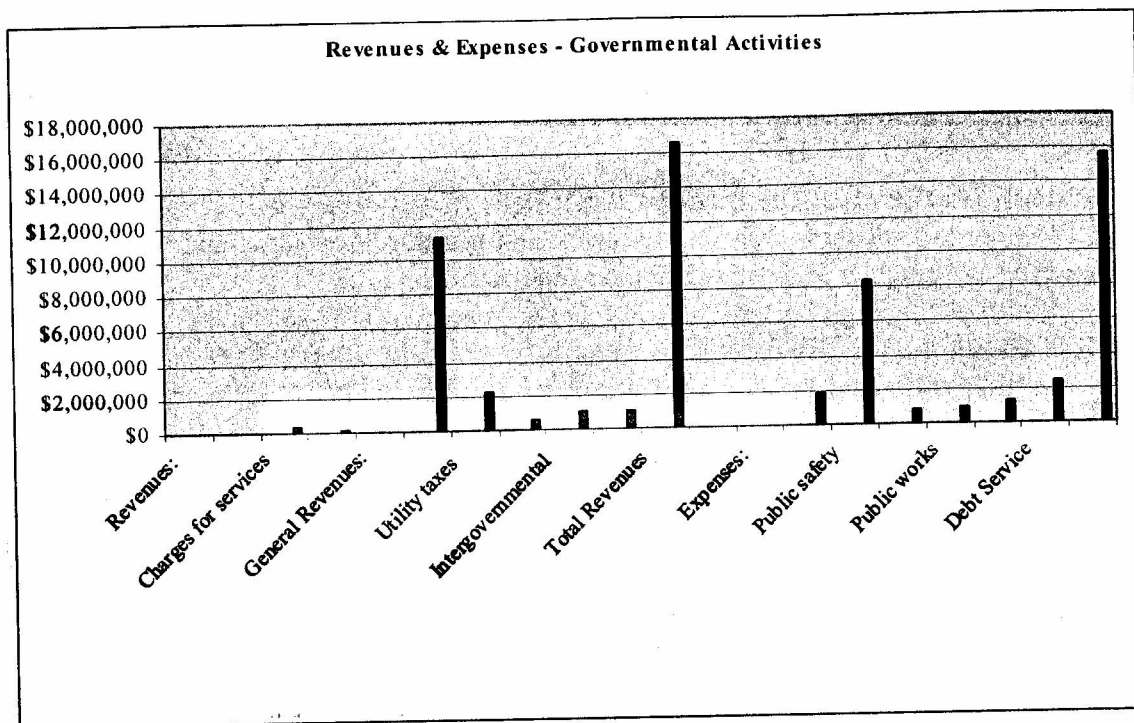
	Governmental Activities	Business-type Activities	Total 2003
Current Assets	\$ 7,086,983	\$ 1,392,139	\$ 8,479,122
Capital assets, net	46,299,091	8,885,441	55,184,532
Total assets	53,386,074	10,277,580	63,663,654
Current liabilities	3,495,250	3,164	3,498,414
Noncurrent liabilities	21,994,322	6,843,444	28,837,766
Investment in capital assets, net of related debt	23,889,001	2,024,755	25,913,756
Restricted	171,680	-	171,680
Unrestricted	3,835,821	1,388,975	5,224,796
Total net assets	\$ 27,896,502	\$ 3,413,730	\$ 31,310,232

Table A-2

Summary of changes in net assets

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	Total <u>2003</u>
Revenues:			
Program Revenues:			
Charges for services	\$ 1,297,724	\$ 844,656	\$ 2,142,380
Operating grants and contributions	99,830	-	99,830
Capital grants and contributions	421,085	-	421,085
General Revenues:			
Property taxes	11,317,161	-	11,317,161
Utility taxes	2,251,876	-	2,251,876
Franchise taxes	611,502	-	611,502
Intergovernmental	776,869	-	776,869
Investment income and miscellaneous	282,847	22,163	305,010
Total Revenues	<u>17,058,894</u>	<u>866,819</u>	<u>17,925,713</u>
Expenses:			
General government	5,825,199	-	5,825,199
Public safety	9,608,735	-	9,608,735
Parks and recreation	826,695	-	826,695
Public works	963,676	-	963,676
Building, zoning and planning	1,252,012	-	1,252,012
Debt Service	1,064,028	-	1,064,028
Stormwater	-	634,361	634,361
Solid Waste Collection	-	273,076	273,076
Sanitary Sewer Construction	-	6,288	6,288
Total Expenses	<u>19,540,345</u>	<u>913,725</u>	<u>20,454,070</u>
Change in net assets before transfers	(2,481,451)	(46,906)	(2,528,357)
Transfers	<u>(9,737)</u>	<u>9,737</u>	<u>-</u>
Change in net assets before transfers	(2,491,188)	(37,169)	(2,528,357)
Net Assets, September 30, 2002	<u>30,387,690</u>	<u>3,450,899</u>	<u>33,838,589</u>
Net Assets, September 30, 2003	<u>\$ 27,896,502</u>	<u>\$ 3,413,730</u>	<u>\$ 31,310,232</u>

The Village's net assets decreased by \$2,394,537 during the current fiscal year. This decrease represents the results of operations for a full 12-month period with no capital contributions from outside sources. Key elements of this decrease illustrated in the summary above.



Business-type Activities

Business-type activities decreased the Village's net assets by \$37,169, accounting for 1.47 percent of the total reduction in the Village's net assets.

- In fiscal 2003, two of the three business-type activities reflected operational profits.
- The Stormwater Utility Fund reflected an operating loss of \$82,586, due mainly to depreciation expense in the amount of \$273,919.
- The Solid Waste Collection Fund reported a profit of \$41,320.
- The Sanitary Sewer Construction Fund was dormant awaiting a resumption of construction activity.

Financial Analysis of the Government's Funds

As noted earlier, the Village of Key Biscayne uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village of Key Biscayne's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements.

At the end of the current fiscal year, fund balance of the general fund was \$3,967,559, an increase of \$36,851 in comparison with the prior year. All of this is either reserved or designated for specific uses: (1) emergencies (\$2,200,000), (2) building inspection costs (\$275,000), (3) compensated absences (\$334,644), (4) law enforcement seizures (\$462,540), (5) special disaster relief (\$135,000), (6) playing field acquisitions (\$200,000), (7) additional fire position (\$79,766), (8) working capital reserve (\$126,058), and (9) community center equipment (\$154,551).

The general fund is the chief operating fund of the Village of Key Biscayne. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 25.4 percent of total general fund expenditures.

A summary of the general fund's condensed balance sheet and statement of revenues, expenditures and changes in fund balance is presented in Table B-1 and B-2 for September 30, 2003 and 2002, is shown as follows:

Summary of condensed balance sheet

	<u>2003</u>	<u>2002</u>
Total assets	\$ 4,789,294	\$ 4,403,385
Total liabilities	\$ 821,735	\$ 472,677
Fund balance	3,967,559	3,930,708
Total liabilities and fund balance	\$ 4,789,294	\$ 4,403,385

Table B-2

Summary of condensed statement of revenues, expenditures, and changes in fund balance

	<u>2003</u>	<u>2002</u>
Total revenues	\$ 16,632,613	\$ 14,995,454
Total expenditures	15,647,703	14,497,752
Transfers, Net	(948,059)	-
Net change in fund balance	\$ 36,851	\$ 497,702

Governmental funds decreased the Village of Key Biscayne fund balance by approximately \$2,052,786. This net overall decrease was attributable to cash used to construct various components of the Village's Civic Center capital project. All other governmental activities increased fund balance as follows:

- Property taxes increased by \$1,598,478 (16.7%) during the year. Most of this increase is the product of additional luxury condominium units completed and on the tax roll for the first time, along with renovated homes with increased assessed values.
- Most departments increased 7 percent due to the Village's salary step program, which in fiscal year 2003 reflected a 5 percent increase in salaries and a 2 percent increase for a cost of living increase.
- Debt service remained fairly level compared to the prior year.
- The amount expended to the village Attorney decreased due to fewer costly lawsuits that were reflected in the fiscal 2002 statements.

For the most part, increases in expenses closely paralleled inflation and growth in the scope of services.

General Fund Budgetary Highlights

There were no differences between the original and final budgeted amounts, as the budget did not require any amendments. There were also no supplemental appropriations for the fiscal year ended September 30, 2003.

Capital Assets

As of September 30, 2003, the Village's investment in capital assets for both governmental activities and business-type activities amounted to \$55,184,532 (\$46,299,091 in governmental activities and \$8,885,441 in business-type activities). The total increase in capital assets for the fiscal year was as follows:

Major capital asset events during the fiscal year for governmental activities included the following:

- Completion of the Fire Station and Village Hall / Police Department Buildings
- Completion of the Beach Park
- Numerous street improvement programs
- Completion of the Village Green Gazebo

See Note 6 on page 30 of the notes to the basic financial statements for a detailed breakdown of capital assets by classification.

Long-term Debt

At September 30, 2003, the Village had bonded debt outstanding of \$29,270,776 (\$22,410,090 for governmental activities and \$6,860,686 for business-type activities). Of this amount, \$6,430,000 represents bonds secured solely by specified revenue sources (stormwater revenue bonds). The remainder are special obligation bonds that are secured by non-ad Valorem revenues through covenants to budget and appropriate.

The Village's governmental activities debt increased by \$245,090 from 2002 to 2003 due to the additional borrowing required to construct the new community center facility.

Additional information on the Village's long-term debt can be found in Note 7 on pages 31 to 35 of this report.

Economic Factors and Next Years Budgets and Rates

- The unemployment rate for Miami-Dade County is currently 7.3 percent, which is a decrease from a rate of 7.4 percent a year ago. This compares unfavorably to the state's average unemployment rate of 5.1 percent and the national average rate of 6.1 percent. The Village's average rate remained unchanged at 3.2 percent.
- The occupancy rate of the Village's retail rentals and hospitality service industry has remained stable for the past several years.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the Village of Key Biscayne's budget for the 2004 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Village of Key Biscayne's finances for all those with an interest in the Village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Village Manager, 88 West McIntyre Street, Key Biscayne, Florida 33149.

BASIC FINANCIAL STATEMENTS

VILLAGE OF KEY BISCAYNE, FLORIDA

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2003

	Governmental <u>Activities</u>	Business- type <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 5,977,025	\$ 154,574	\$ 6,131,599
Investments	181,094	1,023,927	1,205,021
Property taxes receivable	41,570	-	41,570
Other receivables	868,115	221,757	1,089,872
Interest receivable	-	11,060	11,060
Internal balances	19,179	(19,179)	-
Net pension asset	325,867	-	325,867
Capital assets not being depreciated	23,919,097	463,915	24,383,012
Capital assets, net of accumulated depreciation	<u>22,379,994</u>	<u>8,421,526</u>	<u>30,801,520</u>
Total assets	<u>53,711,941</u>	<u>10,277,580</u>	<u>63,989,521</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	1,478,235	3,164	1,481,399
Retainage payable	502,162	-	502,162
Deferred revenue	13,134	-	13,134
Noncurrent liabilities:			
Due within one year	1,501,719	17,242	1,518,961
Due in more than one year	<u>21,994,322</u>	<u>6,843,444</u>	<u>28,837,766</u>
Total liabilities	<u>25,489,572</u>	<u>6,863,850</u>	<u>32,353,422</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	23,889,001	2,024,755	25,913,756
Restricted for law enforcement	171,680	-	171,680
Unrestricted	<u>4,161,688</u>	<u>1,388,975</u>	<u>5,550,663</u>
Total net assets	<u>\$ 28,222,369</u>	<u>\$ 3,413,730</u>	<u>\$ 31,636,099</u>

See notes to basic financial statements.

VILLAGE OF KEY BISCAYNE, FLORIDA

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2003

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-type Activities
Governmental activities:					
General government	\$ 5,691,379	\$ 1,034,247	\$ 83,830	\$ -	\$ (4,573,302)
Public works	963,676	-	-	421,085	-
Police	4,787,090	110,215	16,000	-	(542,591)
Fire	4,821,645	5,805	-	-	(4,660,875)
Parks and recreation	826,695	29,752	-	-	(4,815,840)
Building, zoning and planning	1,252,012	117,705	-	-	(796,943)
Interest on long-term debt	1,064,028	-	-	-	(1,134,307)
Total governmental activities	19,406,525	1,297,724	99,830	421,085	(1,064,028)
Business-type activities:					
Stormwater	634,361	531,164	-	-	(17,587,886)
Solid waste	273,076	313,492	-	-	-
Sanitary sewer	6,288	-	-	-	(103,197)
Total business-type activities	913,725	844,656	-	-	40,416
Total	\$ 20,320,250	\$ 2,142,380	\$ 99,830	\$ 421,085	(6,288)
					(69,069)
					(69,069)
					(17,656,955)
General revenues:					
Property taxes				11,317,161	-
Franchise fees based on gross receipts				611,502	-
Utility taxes				2,251,876	-
Intergovernmental				776,869	-
Unrestricted investment earnings				82,286	22,163
Miscellaneous				200,561	-
Transfers				(9,737)	9,737
Total general revenues				15,230,518	31,900
Change in net assets				(2,357,368)	(37,169)
Net assets - beginning				30,579,737	3,450,899
Net assets - ending				\$ 28,222,369	\$ 3,413,730
					\$ 31,636,099

See notes to basic financial statements.

VILLAGE OF KEY BISCAYNE, FLORIDA

BALANCE SHEET GOVERNMENTAL FUNDS

SEPTEMBER 30, 2003

	<u>General</u>	<u>Capital Improvements</u>	<u>Civic Center</u>	<u>Special Revenue (a nonmajor fund)</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$4,075,414	\$ 1,803,495	\$ 15,195	\$ 82,921	\$ 5,977,025
Investments	181,094	-	-	-	181,094
Property taxes receivable	41,570	-	-	-	41,570
Other receivables, net	467,221	306,876	-	94,018	868,115
Due from other funds	23,995	-	875,781	21,624	921,400
Total assets	<u>\$4,789,294</u>	<u>\$ 2,110,371</u>	<u>\$ 890,976</u>	<u>\$ 198,563</u>	<u>\$ 7,989,204</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 765,258	\$ 31,316	\$ 681,662	\$ -	\$ 1,478,236
Retainage payable	-	-	502,161	-	502,161
Due to other funds	21,624	880,597	-	-	902,221
Deferred revenue	13,134	-	-	-	13,134
Compensated absences	21,719	-	-	-	21,719
Total liabilities	<u>821,735</u>	<u>911,913</u>	<u>1,183,823</u>	<u>-</u>	<u>2,917,471</u>
Fund balances:					
Reserved	2,967,382	1,198,458	-	198,563	4,364,403
Unreserved reported in:					
Civic center fund	-	-	(292,847)	-	(292,847)
General fund - designated	1,000,177	-	-	-	1,000,177
Total fund balances	<u>3,967,559</u>	<u>1,198,458</u>	<u>(292,847)</u>	<u>198,563</u>	<u>5,071,733</u>
Total liabilities and fund balances	<u>\$4,789,294</u>	<u>\$ 2,110,371</u>	<u>\$ 890,976</u>	<u>\$ 198,563</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	46,299,091
A negative (NPO) net pension obligation is not considered to represent a financial asset and therefore is not reported in the governmental funds	325,867
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds	<u>(23,474,322)</u>

Net assets of governmental activities	<u>\$ 28,222,369</u>
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See notes to basic financial statements.

VILLAGE OF KEY BISCAYNE, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>General</u>	<u>Capital Improvements</u>	<u>Civic Center</u>	<u>Special Revenue (a nonmajor fund)</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 11,317,161	\$ -	\$ -	\$ -	\$ 11,317,161
Utility taxes	2,251,876	-	-	-	2,251,876
Franchise fees	611,502	-	-	-	611,502
Licenses and permits	970,001	-	-	-	970,001
Intergovernmental	999,391	-	-	-	999,391
Charges for services	327,723	-	-	-	327,723
Interest	55,129	12,031	15,126	-	82,286
Grants	99,830	-	-	-	99,830
Other	-	200,000	561	198,563	399,124
Total revenues	<u>16,632,613</u>	<u>212,031</u>	<u>15,687</u>	<u>198,563</u>	<u>17,058,894</u>
Expenditures:					
Current:					
General government	1,829,501	-	-	-	1,829,501
Fire Rescue	4,046,269	-	-	-	4,046,269
Police	4,305,474	-	-	-	4,305,474
Public works	963,247	-	-	-	963,247
Building, zoning and planning	1,245,119	-	-	-	1,245,119
Parks and recreation	782,065	-	-	-	782,065
Capital outlay	-	461,303	4,647,027	-	5,108,330
Debt service:					
Principal	1,415,000	-	-	-	1,415,000
Interest and fiscal charges	1,061,028	-	3,000	-	1,064,028
Total expenditures	<u>15,647,703</u>	<u>461,303</u>	<u>4,650,027</u>	<u>-</u>	<u>20,759,033</u>
Excess (deficiency) of revenues over expenditures	<u>984,910</u>	<u>(249,272)</u>	<u>(4,634,340)</u>	<u>198,563</u>	<u>(3,700,139)</u>
Other financing sources (uses):					
Transfers in	330	938,322	-	-	938,652
Transfers out	(948,389)	-	-	-	(948,389)
Bonds issued	-	-	1,657,090	-	1,657,090
Total other financing sources (uses)	<u>(948,059)</u>	<u>938,322</u>	<u>1,657,090</u>	<u>-</u>	<u>1,647,353</u>
Net change in fund balances	36,851	689,050	(2,977,250)	198,563	(2,052,786)
Fund balances - beginning	3,930,708	509,408	2,684,403	-	7,124,519
Fund balances - ending	<u>\$ 3,967,559</u>	<u>\$ 1,198,458</u>	<u>\$ (292,847)</u>	<u>\$ 198,563</u>	<u>\$ 5,071,733</u>

See notes to basic financial statements.

VILLAGE OF KEY BISCAYNE, FLORIDA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2003

Amounts reported for governmental activities in the statement of activities
(Page 8) are different because:

Net change in fund balances - total governmental funds (Page 14)	\$ (2,052,786)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

The details of the difference are as follows:

Capital outlay	\$ 1,650,867	
Depreciation expense	<u>(779,947)</u>	
Net adjustment		870,920

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

The detail of the differences are as follows:

Debt payments	1,415,000	
2002 revenue bonds issued	<u>\$ (1,660,090)</u>	
Net adjustment		(245,090)

Some expenses reported in the statement of activities do not require current financial resources and, therefore, are not reported as expenditures in governmental funds.

The details of the difference is:

Compensated absences	<u>(1,064,232)</u>
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Change in net assets of governmental activities (Page 12)	\$ (2,491,188)
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VILLAGE OF KEY BISCAYNE, FLORIDA

STATEMENT OF NET ASSETS PROPRIETARY FUNDS SEPTEMBER 30, 2003

	<u>Business-type Activities -</u> <u>Enterprise Funds</u>		
	Stormwater		
	Utility	Nonmajor	
	<u>System</u>	<u>Funds</u>	<u>Totals</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 81,116	\$ 73,458	\$ 154,574
Investments	1,023,927	-	1,023,927
Receivables, net	101,109	120,648	221,757
Interest receivable	11,060	-	11,060
Total current assets	<u>1,217,212</u>	<u>194,106</u>	<u>1,411,318</u>
Noncurrent assets:			
Capital assets not being depreciated	-	463,915	463,915
Capital assets, net of accumulated depreciation	<u>8,421,526</u>	<u>-</u>	<u>8,421,526</u>
Total noncurrent assets	<u>8,421,526</u>	<u>463,915</u>	<u>8,885,441</u>
Total assets	<u>9,638,738</u>	<u>658,021</u>	<u>10,296,759</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued liabilities	3,164	-	3,164
Due to other funds	19,179	-	19,179
Current portion of revenue bonds payable	-	17,242	17,242
Total current liabilities	<u>22,343</u>	<u>17,242</u>	<u>39,585</u>
Noncurrent liabilities:			
Revenue bonds	6,430,000	-	6,430,000
Revolving loan	-	413,444	413,444
Total noncurrent liabilities	<u>6,430,000</u>	<u>413,444</u>	<u>6,843,444</u>
Total liabilities	<u>6,452,343</u>	<u>430,686</u>	<u>6,883,029</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	1,991,526	33,229	2,024,755
Unrestricted	<u>1,194,869</u>	<u>194,106</u>	<u>1,388,975</u>
Total net assets	<u>\$3,186,395</u>	<u>\$227,335</u>	<u>\$3,413,730</u>

See notes to basic financial statements.

VILLAGE OF KEY BISCAYNE, FLORIDA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Business-type Activities -</u> <u>Enterprise Funds</u>		
	Stormwater Utility System	Nonmajor Funds	Totals
Operating revenues:			
Charges for services	<u>\$ 531,164</u>	<u>\$ 313,492</u>	<u>\$ 844,656</u>
Operating expenses:			
General and administrative	86,828	273,076	359,904
Depreciation	<u>273,920</u>	<u>-</u>	<u>273,920</u>
Total operating expenses	<u>360,748</u>	<u>273,076</u>	<u>633,824</u>
Operating income	<u>170,416</u>	<u>40,416</u>	<u>210,832</u>
Non-operating revenues (expenses):			
Interest income	20,612	1,551	22,163
Interest expense	<u>(273,613)</u>	<u>(6,288)</u>	<u>(279,901)</u>
Total non-operating revenues (expenses)	<u>(253,001)</u>	<u>(4,737)</u>	<u>(257,738)</u>
Income (loss) before transfers	(82,585)	35,679	(46,906)
Transfers in	-	10,067	10,067
Transfers out	<u>-</u>	<u>(330)</u>	<u>(330)</u>
Net income	(82,585)	45,416	(37,169)
Net assets, beginning	<u>3,268,980</u>	<u>181,919</u>	<u>3,450,899</u>
Net assets, ending	<u>\$3,186,395</u>	<u>\$ 227,335</u>	<u>\$3,413,730</u>

See notes to basic financial statements.

VILLAGE OF KEY BISCAYNE, FLORIDA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Business-type Activities -</u> <u>Enterprise Funds</u>		
	<u>Stormwater</u> <u>Utility</u> <u>System</u>	<u>Nonmajor</u> <u>Funds</u>	<u>Totals</u>
Cash flows from operating activities:			
Receipts from customers and users	\$ 632,864	\$ 261,528	\$ 894,392
Payments to suppliers	<u>(86,828)</u>	<u>(273,076)</u>	<u>(359,904)</u>
Net cash provided (used) by operating activities	<u>546,036</u>	<u>(11,548)</u>	<u>534,488</u>
Cash flows from non-capital financing activities:			
Transfers from other funds	-	10,067	10,067
Transfers to other funds	<u>-</u>	<u>(330)</u>	<u>(330)</u>
Net cash provided by non-capital financing activities	<u>-</u>	<u>9,737</u>	<u>9,737</u>
Cash flows from capital and related financing activities:			
Net payments from revolving loan	-	(339,780)	(339,780)
Principal paid on capital debt	(195,000)	-	(195,000)
Interest paid on capital debt	<u>(273,613)</u>	<u>(6,288)</u>	<u>(279,901)</u>
Net cash used by capital and related financing activities	<u>(468,613)</u>	<u>(346,068)</u>	<u>(814,681)</u>
Cash flows from investing activities:			
Purchase of investments	(16,941)	-	(16,941)
Interest received	<u>20,611</u>	<u>1,551</u>	<u>22,162</u>
Net cash provided by investing activities	<u>3,670</u>	<u>1,551</u>	<u>5,221</u>
Net increase (decrease) in cash and cash equivalents	81,093	(346,328)	(265,235)
Cash and cash equivalents, beginning	<u>23</u>	<u>419,786</u>	<u>419,809</u>
Cash and cash equivalents, ending	<u>\$ 81,116</u>	<u>\$ 73,458</u>	<u>\$ 154,574</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 170,416</u>	<u>\$ 40,416</u>	<u>\$ 210,832</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	273,920	-	273,920
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	126,035	(72,276)	53,759
Interest receivable	(1,948)	-	(1,948)
Increase (decrease) in:			
Accounts payable	3,164	-	3,164
Due to other funds	<u>(25,551)</u>	<u>20,312</u>	<u>(5,239)</u>
Total adjustments	<u>375,620</u>	<u>(51,964)</u>	<u>323,656</u>
Net cash provided (used) by operating activities	<u>\$ 546,036</u>	<u>\$ (11,548)</u>	<u>\$ 534,488</u>

See notes to basic financial statements.

VILLAGE OF KEY BISCAYNE, FLORIDA

STATEMENT OF FIDUCIARY NET ASSETS PENSION TRUST FUND

SEPTEMBER 30, 2003

ASSETS

Mutual fund investments	\$3,015,954
Other assets	<u>283,802</u>
Total assets	<u>3,299,756</u>

LIABILITIES

Liabilities	<u>-</u>
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NET ASSETS

Held in trust for pension benefits	<u>\$3,299,756</u>
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See notes to basic financial statements.

VILLAGE OF KEY BISCAYNE, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION TRUST FUND
FISCAL YEAR ENDED SEPTEMBER 30, 2003

ADDITIONS

Contributions:

Plan members	\$ 830,411
State	<u>199,273</u>
Total contributions	<u>1,029,684</u>

Investment earnings:

Interest and dividends	6,909
Net increase in the fair value of investments	<u>307,939</u>
Total investments earnings	<u>314,848</u>
Total additions	<u>1,344,532</u>

DEDUCTIONS

Distributions	109,418
Administrative expenses	<u>43,160</u>
Total deductions	<u>152,578</u>

Change in net assets 1,191,954

Net assets - beginning 2,107,802

Net assets - ending \$3,299,756

See notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Key Biscayne, Florida (the Village), located in Miami-Dade County, is a political subdivision of the State of Florida. The Village, which was incorporated in 1991, operates under a Council-Manager form of government. In addition to the general government function, the Village provides its residents with public works, public safety (police and fire), parks and recreation, building, zoning and planning functions, sanitation and stormwater management. The Village does not provide educational or hospital facilities; those services are provided by the Miami-Dade County School Board and Miami-Dade County, respectively.

The financial statements of the Village have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. For the fiscal year ended September 30, 2003, the Village adopted the new accounting and financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Omnibus, an amendment of GASB Statements No. 21 and 34; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments. As a result, an entirely new financial presentation format has been provided. The more significant of the Village's accounting policies are described below:

A. Financial Reporting Entity

The financial statements were prepared in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, which establishes standards for defining and reporting on the financial reporting entity. The definition of the financial reporting entity is based upon the concept that elected officials are accountable to their constituents for their actions. One of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of the elected officials. The financial reporting entity consists of the Village, organizations for which the Village is financially accountable, and other organizations for which the nature and significance of their relationship with the Village are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The Village is financially accountable for a component unit if it appoints a voting majority of the organization's governing board and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Village. Based upon the application of these criteria, there were no organizations that met the criteria described above.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements.

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining nonmajor governmental funds are aggregated and reported as other governmental funds. The Village has only one nonmajor governmental fund (the Special Revenue Fund).

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees and other taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The Village reports the following major governmental funds:

The *General Fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Improvement Fund* accounts for the acquisition or construction of various major capital projects.

The *Civic Center Fund* accounts for the construction of the Village's civic center which includes administrative offices, fire and police facilities and a community center.

The Village also reports the following nonmajor government fund:

The *Special Revenue Fund* accounts for the revenues received from the transportation surtax and expenditures for related transportation costs.

The Village reports the following major proprietary fund in the basic financial statements:

The *Stormwater Utility Fund* accounts for the construction and maintenance of the Village's stormwater system.

Additionally, the Village reports the following fund types:

The *Pension Trust Fund* is used to account for the Village's single-employer defined benefit pension plan covering substantially all of its police officers and firefighters.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Village has the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Village's various utility functions and various other functions of the Village. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The Village reports the following major governmental funds:

The *General Fund* is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Village's stormwater utility, solid waste services and sanitary sewer construction funds are charges to customers for services. Operating expenses for enterprise funds include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Village's cash and cash equivalents include cash on hand, time and demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition and investments with the State Board Investment Pool.

Short-term investments, except the State Board Investment Pool, are reported at cost, which approximates fair value. The Investment Pool is recorded at its value of the pool shares (2A-7 Pool) which is fair value.

The nature of investments is governed by the provisions of Florida Statutes Section 218. Under this statute, authorized investments are limited, unless otherwise authorized by law or ordinance, to the local government surplus funds trust fund, money market funds, direct or unconditionally guaranteed obligations of the United States Government, obligations of certain governmental agencies, interest bearing time deposits or savings accounts.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

3. Capital assets

Capital assets, which include property, plant and equipment, and certain infrastructure assets (e.g., utility plant, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$750 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed. No such costs were capitalized in 2003.

Capital assets of the Village are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Improvements other than buildings	10-50
Equipment	10
Furniture and fixtures	10

4. Compensated absences

It is the Village's policy to permit employees to accumulate within certain limits, earned but unused vacation time and sick leave, which will be paid to employees upon separation from Village service. All vacation and sick leave pay is accrued when incurred in the government-wide, and proprietary fund financial statements. In the governmental funds, a liability is recorded only for vacation and sick leave payouts for employee separations occurring within 60 days subsequent to the year-end.

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

5. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line amortization method. The results of using this method do not differ significantly from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts of assets, liabilities, disclosures of contingent liabilities, revenues and expenditures/expenses reported in the financial statements and accompanying notes. These estimates include assessing the collectibility of receivables, the realization of pension obligations and the useful lives of capital assets. Although these estimates as well as all estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

7. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, where noted, represent tentative management plans that are subject to change.

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits

In addition to insurance provided by the Federal Depository Insurance Corporation, all deposits are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Accordingly, all amounts reported as deposits are insured or collateralized with securities held by the entity or its agent in the entity's name.

Investments

The Village is authorized to invest in obligations of the U.S. Treasury, its agencies, instrumentalities and the Local Government Surplus Funds Trust Fund administered by the State Board of Administration. The investments follow the investment rules defined in Florida Statutes Chapter 215. The investment policy defined in the statutes attempts to promote, through state assistance, the maximization of net interest earnings on invested surplus funds of local units of governments while limiting the risk to which the funds are exposed.

The Local Government Surplus Funds Trust Fund is governed by Ch. 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7 fund.

The Village's investment balances, which are carried at fair value, are classified as credit risk category 1; insured or registered, or securities held by the entity or its agent in the entity's name, were as follows:

	<u>Category 1</u>
Repurchase agreements	\$2,724,484
Investments not subject to categorization:	
Mutual funds	3,015,954
State Board of Administration investment pool	<u>173,608</u>
	<u>\$5,914,046</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

A reconciliation of cash and investments as shown on the statement of net assets is as follows:

Deposits (including cash and certificates of deposit)	\$ 4,438,528
Investments	<u>5,914,046</u>
Total deposits and investments	<u>\$ 10,352,574</u>
Cash and cash equivalents, primary government	\$ 6,131,599
Investments, primary government	<u>1,205,021</u>
Total, primary government	7,336,620
Investments, fiduciary funds	<u>3,015,954</u>
Grand total	<u>\$ 10,352,574</u>

NOTE 3. RECEIVABLES

Receivables as of September 30, 2003 for the Village's individual major funds, nonmajor funds, internal service funds and fiduciary funds in the aggregate, including the allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Capital Improvements</u>	<u>Storm- water</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Customers billed	\$ -	\$ -	101,109	140,535	\$ 241,644
Property taxes	41,570	-	-	-	41,570
Intergovernmental	<u>467,221</u>	<u>306,876</u>	<u>-</u>	<u>94,018</u>	<u>868,115</u>
Gross receivables	508,791	306,876	101,109	234,553	1,151,329
Less allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,887</u>	<u>19,887</u>
Net total receivables	<u>\$ 508,791</u>	<u>\$ 306,876</u>	<u>\$ 101,109</u>	<u>\$ 214,666</u>	<u>\$ 1,131,442</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 4. PROPERTY TAXES

Property values are assessed on a county-wide basis by the Miami-Dade County Property Appraiser as of January 1, the lien date, of each year and are due the following November 1. Taxable value of property within the Village is certified by the Property Appraiser and the Village levies a tax millage rate upon the taxable value, which will provide revenue required for the fiscal year beginning October 1.

Property taxes levied each November 1, by the Village and all other taxing authorities within the County, are centrally billed and collected by Miami-Dade County, with remittances to the Village of their proportionate share of collected taxes. Taxes for the fiscal year beginning October 1 are billed in the month of November, subject to a 1% per month discount for the period November through February, and are due no later than March 31. On April 1, unpaid amounts become delinquent with interest and penalties added thereafter. Beginning June 1, tax certificates representing delinquent taxes with interest and penalties are sold by Miami-Dade County, with remittance to the Village for its share of those receipts. At September 30, 2003, there were no material delinquent taxes.

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of September 30, 2002 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<u>Due from/to other funds:</u>		
General	Storm water utility	\$ 19,179
	Capital Improvement	4,816
Civic Center	Capital Improvement	875,781
Nonmajor governmental	General Fund	21,624
		<u>\$ 921,400</u>

Interfund transfers:

	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Capital Improvement</u>	<u>Nonmajor</u>	
Transfers out:				
General fund	\$ -	\$ 938,322	\$ 10,067	\$ 948,389
Nonmajor funds	330	-	-	330
Total transfers out	<u>\$ 330</u>	<u>\$ 938,322</u>	<u>\$ 10,067</u>	<u>\$ 948,719</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 21,833,837	\$ -	\$ -	\$ 21,833,837
Construction in progress	12,266,787	2,085,260	12,266,787	2,085,260
Total capital assets, not being depreciated	<u>34,100,624</u>	<u>2,085,260</u>	<u>12,266,787</u>	<u>23,919,097</u>
Capital assets, being depreciated:				
Buildings	814,668	12,266,787	627,500	12,453,955
Improvements other than buildings	10,994,376	-	-	10,994,376
Furniture, fixtures and equipment	2,788,522	1,165,009	971,902	2,981,629
Total capital assets, being depreciated	<u>14,597,566</u>	<u>13,431,796</u>	<u>1,599,402</u>	<u>26,429,960</u>
Less accumulated depreciation for:				
Buildings	29,946	224,058	-	254,004
Improvements	1,972,186	227,074	-	2,199,260
Furniture, fixtures and equipment	1,267,887	328,815	-	1,596,702
Total accumulated depreciation	<u>3,270,019</u>	<u>779,947</u>	<u>-</u>	<u>4,049,966</u>
Total capital assets, being depreciated, net	<u>11,327,547</u>	<u>12,651,849</u>	<u>1,599,402</u>	<u>22,379,994</u>
Governmental activities capital assets, net	<u>\$ 45,428,171</u>	<u>\$ 14,737,109</u>	<u>\$ 13,866,189</u>	<u>\$ 46,299,091</u>
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 373,249	\$ 90,666	\$ -	\$ 463,915
Total capital assets, not being depreciated	<u>373,249</u>	<u>90,666</u>	<u>-</u>	<u>463,915</u>
Capital assets, being depreciated:				
Stormwater utility system	10,056,660	-	-	10,056,660
Total capital assets, being depreciated	<u>10,056,660</u>	<u>-</u>	<u>-</u>	<u>10,056,660</u>
Less accumulated depreciation for:				
Stormwater utility system	1,361,214	273,920	-	1,635,134
Total accumulated depreciation	<u>1,361,214</u>	<u>273,920</u>	<u>-</u>	<u>1,635,134</u>
Total capital assets, being depreciated, net	<u>8,695,446</u>	<u>(273,920)</u>	<u>-</u>	<u>8,421,526</u>
Business-type activities capital assets, net	<u>\$ 9,068,695</u>	<u>\$ (183,254)</u>	<u>\$ -</u>	<u>\$ 8,885,441</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 6. CAPITAL ASSETS (Continued)

Depreciation expense was charged as functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 296,927
Police	176,888
Fire	254,180
Public works	429
Building, zoning and planning	6,893
Parks	<u>44,630</u>
Total depreciation expenses - governmental activities	<u>\$ 779,947</u>

Business-type activities:

Stormwater	\$ 273,920
Sanitary sewer	<u>-</u>
	<u>\$ 273,920</u>

NOTE 7. LONG-TERM DEBT

The following is a summary of changes in long-term liabilities of the Village for governmental activities for the year ended September 30, 2003:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds payable:					
Land acquisition revenue bonds, Series 1993	\$ 2,165,000	\$ -	\$ 1,060,000	\$ 1,105,000	\$ 1,105,000
Land acquisition and capital improvement revenue bonds, Series 1999	10,000,000	-	355,000	9,645,000	375,000
Land acquisition and capital improvement revenue bonds, Series 2000	10,000,000	-	-	10,000,000	-
Capital improvement bonds, Series 2002	<u>-</u>	<u>1,660,090</u>	<u>-</u>	<u>1,660,090</u>	<u>-</u>
Total bonds payable	<u>22,165,000</u>	<u>1,660,090</u>	<u>1,415,000</u>	<u>22,410,090</u>	<u>1,480,000</u>
Other liabilities:					
Compensated absences	<u>1,312,108</u>	<u>-</u>	<u>226,157</u>	<u>1,085,951</u>	<u>21,719</u>
Total other liabilities	<u>1,312,108</u>	<u>-</u>	<u>226,157</u>	<u>1,085,951</u>	<u>21,719</u>
Governmental activities long-term liabilities	<u>\$ 23,477,108</u>	<u>\$ 1,660,090</u>	<u>\$ 1,641,157</u>	<u>\$ 23,496,041</u>	<u>\$ 1,501,719</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 7. LONG-TERM DEBT (Continued)

Revenue Bonds

Land Acquisition Revenue Bonds

On December 14, 1993, the Village issued \$9,200,000 Land Acquisition Revenue Bonds, Series 1993, the proceeds of which were used for the acquisition of the Village Green property. The bonds matured on December 15, 2003. The Village has pledged public service tax revenues to secure payment of the principal and interest on the bonds. The bonds are due in annual principal installments. Interest accrues at 4.36% per annum.

Debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2004	<u>\$1,105,000</u>	<u>\$ 24,089</u>	<u>\$1,129,089</u>

Land Acquisition and Capital Improvement Revenue Bonds

On July 23, 1999, the Village issued \$10,000,000 Land Acquisition and Capital Improvement Revenue Bonds, Series 1999, the proceeds of which were used for the acquisition of property and financing of the construction of the Civic Center project. The bonds mature on July 23, 2019. The Village has pledged non-ad valorem revenues to secure payment of the principal and interest on the bonds. The bonds are due in annual principal installments ranging from \$355,000 in fiscal year 2004 to \$815,000 in fiscal year 2020. Interest accrues at 4.715% per annum.

Debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2004	\$ 375,000	\$ 445,921	\$ 820,921
2005	390,000	427,886	817,886
2006	410,000	409,026	819,026
2007	430,000	389,223	819,223
2008	455,000	368,359	823,359
2009-2013	2,630,000	1,490,412	4,120,412
2014-2018	3,365,000	786,816	4,151,816
2019-2020	<u>1,590,000</u>	<u>75,912</u>	<u>1,665,912</u>
	<u>\$ 9,645,000</u>	<u>\$4,393,556</u>	<u>\$14,038,556</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 7. LONG-TERM DEBT (Continued)

Revenue Bonds (Continued)

Capital Improvement Revenue Bonds

On July 11, 2000, the Village issued a second series of \$10,000,000 Capital Improvement Revenue Bonds, Series 2000, the proceeds of which were used for the acquisition of property and financing of the construction of the Civic Center project. The bonds mature on July 11, 2020. The Village has pledged non-ad valorem revenues to secure payment of the principal and interest on the bonds. The bonds are due in annual principal installments ranging from \$380,000 in fiscal year 2005 to \$860,000 in fiscal year 2021. Interest accrues at 5.24% per annum.

Debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2004	\$ -	\$ 524,000	\$ 524,000
2005	380,000	514,044	894,044
2006	400,000	493,608	893,608
2007	420,000	472,124	892,124
2008	440,000	449,592	889,592
2009-2013	2,580,000	1,865,964	4,445,964
2014-2018	3,330,000	1,095,946	4,425,946
2019-2021	2,450,000	197,024	2,647,024
	<u>\$ 10,000,000</u>	<u>\$ 5,612,302</u>	<u>\$ 15,612,302</u>

Capital Improvement Revenue Bonds

On November 1, 2002, the Village issued Capital Improvement Revenue Bonds, Series 2002. The issuance was established similar to bond anticipation notes where the principal amount is the lesser of \$9,987,551 or the advances made under the bond. Only the amount advanced becomes an obligation of the Village. The entire \$9,987,551 is expected to be advanced by May 1, 2004 as the civic center project will be near completion. As of September 30, 2003, \$1,660,090 had been drawn. As of issuance of these financial statements, \$4,152,993 had been drawn down. Therefore, we have presented the debt service amortization schedule for the entire amount of the bonds as this provides relevant data on the Village's obligation. The bonds mature on November 1, 2022. Interest is due quarterly at a rate of 3.95% up to November 1, 2012. From November 1, 2012 to maturity, the interest rate will become a variable rate based on certain indices.

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 7. LONG-TERM DEBT (Continued)

Revenue Bonds (Continued)

Capital Improvement Revenue Bonds (Continued)

Debt service to maturity is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2004	\$ 95,659	\$ 152,226	\$ 247,885
2005	391,298	349,901	741,199
2006	405,536	335,663	741,199
2007	420,292	320,907	741,199
2008	435,584	305,615	741,199
2009-2013	2,427,514	1,278,480	3,705,994
2014-2018	2,902,484	803,510	3,705,994
2019-2022	2,909,484	240,611	3,150,095
	<u>\$9,987,851</u>	<u>\$3,786,913</u>	<u>\$13,774,764</u>

The following is a summary of changes in long-term liabilities of the Village for business-type activities for the year ended September 30, 2003:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities					
Bonds and loan payable:					
Stormwater utility revenue bonds	\$6,625,000	\$ -	\$ 195,000	\$6,430,000	\$ -
Revolving loan	770,466	-	339,780	430,686	17,242
Total bonds and loan payable	<u>7,395,466</u>	<u>-</u>	<u>534,780</u>	<u>6,860,686</u>	<u>17,242</u>
Business-type activities:					
Long-term liabilities	<u>\$7,395,466</u>	<u>\$ -</u>	<u>\$ 534,780</u>	<u>\$6,860,686</u>	<u>\$ 17,242</u>

Stormwater Utility Revenue Bonds

On January 26, 1999, the Village issued \$7,200,000 Stormwater Utility Revenue Bonds, Series 1999, the proceeds of which were used to pay the principal of the \$7,200,000 Bond Anticipation Notes, Series 1995. The bonds mature on January 26, 2019. The Village has pledged stormwater utility fees to secure payment of the principal and interest on the bonds. The bonds are due in annual principal installments on October 1st, ranging from \$195,000 in fiscal year 2004 to \$595,000 in fiscal year 2020. The payment due on October 1, 2003 of \$185,000 was paid on September 30, 2002. Interest accrues at 4.13% per annum.

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 7. LONG-TERM DEBT (Continued)

Revenue Bonds (Continued)

Stormwater Utility Revenue Bonds (Continued)

Debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2004	\$ -	\$ 273,613	\$ 273,613
2005	205,000	265,558	470,558
2006	215,000	257,093	472,093
2007	225,000	248,213	473,213
2008	235,000	238,921	473,921
2009-2013	1,930,000	994,504	2,924,504
2014-2018	2,455,000	554,659	3,009,659
2019-2020	1,165,000	72,688	1,237,688
	<u>\$6,430,000</u>	<u>\$2,905,248</u>	<u>\$9,335,248</u>

Revolving Loan

In June 1996, the Village entered into a loan agreement in the amount of \$887,983 for the financing of the planning and engineering of the proposed sanitary sewer construction project under a State Revolving Fund Loan. The proceeds were received in fiscal year 1998. The loan is payable in semi-annual payments over 20 years beginning on April 15, 2003 at an interest rate of 2.56% per annum. The loan matures on October 15, 2022. Principal outstanding as of September 30, 2002 is \$770,466. In November 2002, the Village prepaid approximately \$373,000 of its revolving loan with the State of Florida for its sanitary sewer construction project, which brought the outstanding balance to \$437,548 prior to the first required payment on April 15, 2003.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending September 30:			
2004	\$ 17,242	\$ 10,892	\$ 28,134
2005	17,686	10,448	28,134
2006	18,142	9,993	28,135
2007	18,609	9,525	28,134
2008	19,088	9,046	28,134
2009-2013	103,077	37,593	140,670
2014-2018	117,058	23,613	140,671
2019-2022	119,784	7,736	127,520
	<u>\$430,686</u>	<u>\$118,846</u>	<u>\$549,532</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 8. COMMITMENTS AND CONTINGENCIES

Construction Commitments

As of September 30, 2003, the Village had outstanding construction commitments of approximately \$11,579,270 to complete the civic center project.

Litigation

The Village is involved in several lawsuits incidental to its operations, the outcome of which, in the opinion of management and legal counsel, would not have a material adverse effect on the financial condition of the Village.

Risk Management

The Village is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the Village carries commercial insurance. There was no reduction in insurance coverage from coverages in the prior year and there were no settlements that exceeded insurance coverage for each of the past three years.

Grants Contingency

Federal and State programs in which the Village participates were audited in accordance with the provision of regulatory requirements and grantor agencies. Pursuant to those provisions, certain programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by the audit, government agencies may subject grant programs to additional compliance tests that may result in disallowed costs. In the opinion of management, future disallowances of grant expenditures, if any, would not have a material adverse effect on the financial condition of the Village.

NOTE 9. RESERVED/DESIGNATED FUND BALANCES

As of September 30, 2003, fund balances in the governmental funds have been reserved or designated for the following purposes:

Reserved Fund Balances

General fund:

Special disaster relief	\$ 135,000
Law enforcement services	171,680
Compensated absences	334,644
Emergencies	2,200,000
Working capital	126,058
	<u>\$2,967,382</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 9. RESERVED/DESIGNATED FUND BALANCES (Continued)

Designated Fund Balances

General fund:

Inspector fees	\$ 275,000
Recreation center equipment	154,551
Playing fields	200,000
Additional fire position	79,766
Law enforcement activities	290,860
	<u>\$ 1,000,177</u>

NOTE 10. DEFINED CONTRIBUTION PLANS

The Village as a single-employer contributes to the Village of Key Biscayne Money Purchase Plans, which are defined contribution plans created in accordance with Internal Revenue Code Section 401(a). Under one Plan, which is available to Village employees, the Village contributes 12% and the employees contribute 6%. Under the second plan, which is available only to sworn or certified police officers and firefighters, the Village contributes 12% and there is no employee contribution. Beginning October 1, 1997, the police officers and firefighters, which elected to participate in the defined benefit pension plan (see Note 10), were no longer eligible to contribute to the 401(a) plan. Employer contributions for the fiscal year ended September 30, 2003 were approximately \$209,000 while the employee contributions were approximately \$103,600. Amendments to the Plan must be authorized by the Village Council.

NOTE 11. DEFINED BENEFIT PENSION PLAN

Plan Description

Effective October 1, 1997, the Village established a single-employer Public Employee Retirement System (PERS) to provide pension benefits for its police officers and firefighters. The PERS is considered to be part of the Village's financial reporting entity and is included in the Village's financial reports as a pension trust fund. The Plan was created under Village Ordinance 97-21. The latest available actuarial valuation is as of October 1, 2001. The PERS does not issue a separate audited financial report for the Plan.

Under this plan, all full-time police officers and firefighters employed by the Village are eligible to participate. The monthly retirement benefit is equal to 3% (changed from 2% in the prior year) of the average final compensation for each year of service. The calculation for the average final compensation is computed as one-twelfth of the average salary of the five highest years within the last ten years of credited service. Credited service is determined by the total number of years employed by the Village since August 1, 1993. Amendments to the Plan must be authorized by the Village Council.

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 11. DEFINED BENEFIT PENSION PLAN (Continued)

Plan Description (Continued)

Members are vested after 5 years of service. Vested employees may retire at the earlier of age 55 and the completion of five years of credited service or the age of 52 and the completion of 25 years of credited service.

Administrative costs of the plan are financed through investment earnings. Benefits are recorded when paid.

At October 1, 2002 (date of the latest actuarial valuation), Plan membership consisted of the following:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>4</u>
Current employees:	
Vested	40
Non-vested	<u>17</u>
Total	<u>57</u>

Funding Policy

From the effective date of the Plan, October 1, 1997 through September 30, 2000, the contribution rate by each member of the Plan is 14%. The rate will be adjusted each year thereafter to an amount equal to the total cost for the year, as determined by the most recent actuarial valuation, less the amount of revenue received from the State of Florida pursuant to Chapters 175 and 185 of the Florida Statutes. The participant contribution rate for the year ended September 20, 2002 was 14%. The minimum member contribution rate is 9% of base salary. This funding policy is designed to limit the Village's exposure to contribute to the Plan.

Annual Pension Cost and Net Pension Obligation

The annual pension cost and net pension obligation (asset) as of October 1, 2002 was as follows:

Annual required contribution	\$ 465,562
Interest on net pension obligation	(8,633)
Adjustment to annual required contribution	<u>11,068</u>
Annual pension cost	467,997
Contributions made	<u>601,817</u>
Increase in net pension obligation	(133,820)
Net pension obligation, beginning of year	<u>(192,047)</u>
Net pension obligation, end of year	<u>\$ (325,867)</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 11. DEFINED BENEFIT PENSION PLAN (Continued)

Annual Pension Cost and Net Pension Obligation (Continued)

The annual required contribution for the current year was determined as part of the October 1, 2002 actuarial valuation using the aggregate actuarial cost method. This method does not identify and separately amortize unfunded actuarial liabilities. When a plan uses the aggregate actuarial cost method, a schedule of funding progress is not required to be presented. The actuarial assumptions included (a) 9% investment rate of return (net of investment related expenses) and (b) projected salary increases of 6% per year. Both (a) and (b) included an inflation component of 4%. The actuarial value of assets was determined using the difference between actual and expected return recognized over five years.

Fiscal Year Ended	Trend Information		Net Pension Obligation (Asset)
	Annual Pension Cost (APC)	Percentage of APC Contributed	
9/30/2001	\$ 46,934	284.6%	\$ (144,611)
9/30/2002	381,591	112.4%	(192,047)
9/30/2003	467,997	129.0%	(325,867)



REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF KEY BISCAYNE, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Property taxes	\$11,167,508	\$11,167,508	\$11,317,161	\$ 149,653
Utility taxes	2,255,000	2,255,000	2,251,876	(3,124)
Franchise fees	690,000	690,000	611,502	(78,498)
Licenses and permits	954,185	954,185	970,001	15,816
Intergovernmental	964,900	964,900	999,391	34,491
Charges for services	129,780	129,780	327,723	197,943
Grants	128,300	128,300	99,830	(28,470)
Interest	111,400	111,400	55,129	(56,271)
Total revenues	<u>16,401,073</u>	<u>16,401,073</u>	<u>16,632,613</u>	<u>231,540</u>
Expenditures:				
Current:				
General government:				
Elected officials	321,306	321,306	267,225	54,081
Village Clerk	305,643	305,643	303,469	2,174
Administration	964,751	964,751	942,728	22,023
Village Attorney	333,000	333,000	302,038	30,962
Total general government	<u>1,924,700</u>	<u>1,924,700</u>	<u>1,815,460</u>	<u>109,240</u>
Public safety:				
Police	3,645,134	3,645,134	3,638,285	6,849
Fire	4,051,685	4,051,685	4,046,269	5,416
Total public safety	<u>7,696,819</u>	<u>7,696,819</u>	<u>7,684,554</u>	<u>12,265</u>
Public works	913,301	913,301	963,247	(49,946)
Building, zoning and planning	1,250,330	1,250,330	1,245,119	5,211
Parks and recreation	732,604	732,604	782,065	(49,461)
Debt service:				
Principal	1,410,000	1,410,000	1,415,000	(5,000)
Interest and fiscal charges	1,534,997	1,534,997	1,075,069	459,928
Total expenditures	<u>15,462,751</u>	<u>15,462,751</u>	<u>14,980,514</u>	<u>482,237</u>
Excess of revenues over expenditures	<u>938,322</u>	<u>938,322</u>	<u>1,652,099</u>	<u>713,777</u>
Other financing sources (uses):				
Transfers in	-	-	330	330
Transfers out	(938,322)	(938,322)	(948,389)	(10,067)
Total other financing sources and uses	<u>(938,322)</u>	<u>(938,322)</u>	<u>(948,059)</u>	<u>(9,737)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 704,040</u>	<u>\$ 704,040</u>

See notes to budgetary comparison schedule.

VILLAGE OF KEY BISCAYNE, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO BUDGETARY COMPARISON SCHEDULE

FISCAL YEAR ENDED SEPTEMBER 30, 2003

NOTE 1. BUDGETS AND BUDGETARY ACCOUNTING

An annual appropriated budget is prepared for the general fund.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- (a) The Village Manager submits to the Council a proposed operating budget for the ensuing fiscal year. The operating budget includes appropriations and the means of financing them with an explanation regarding each expenditure that is not of a routine nature.
- (b) Public hearings are conducted to obtain taxpayer comments.
- (c) Prior to October 1, the budget is legally enacted through passage of an ordinance.
- (d) The Village Council, by motion, may make supplemental appropriations for the year up to the amount of revenues in excess of those estimated. During fiscal year ended September 30, 2003, there were no supplemental appropriations.
- (e) Formal budgetary integration is employed as a management control device for the general fund.
- (f) The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP), except for certain unbudgeted expenditures of prior year reserves.
- (g) The Village Manager is authorized to transfer part or all of an encumbered appropriation balance within departments within a fund; however, any revisions that alter the total appropriations of any department or fund must be approved by the Village Council. The classification detail at which expenditures may not legally exceed appropriations is at the department level. For the year ended September 30, 2003, expenditures exceeded appropriations in public works by \$49,946, in parks and recreation by \$49,461 and in debt service principal by \$5,000 as presented in the budgetary comparison schedule on the preceding page. It is the policy of the Village that all related revenues generated by each department be applied to that department in determining if any department exceeds its appropriations in total. In applying all related revenues to each department for fiscal year 2003, it was determined that no department resulted in a deficit situation.
- (h) Budget amendments were not significant in relation to the original appropriations.

VILLAGE OF KEY BISCAYNE, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO BUDGETARY COMPARISON SCHEDULE (Continued)

NOTE 2. RECONCILIATION OF BUDGETED AND ACTUAL RESULTS

The following adjustments were necessary to reconcile the budgetary comparison schedule prepared on the budgetary basis to the statement of revenues, expenditures and changes in fund balances prepared in accordance with generally accepted accounting principles.

	General <u>Fund</u>
Net change in fund balance (GAAP)	\$ 36,851
Federal expenditures not budgeted in 2003	498,216
Compensated absences not budgeted in 2003	168,973
State grant revenue not budgeted in 2003	(73,456)
State grant expenditures not budgeted in 2003	<u>73,456</u>
Net change in fund balance (budgetary basis)	<u>\$ 704,040</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION PENSION TRUST FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended September 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1998	\$ -	0%
1999	1,497	2173%
2000	2,636	4199%
2001	45,199	296%
2002	377,777	114%
2003	465,562	129%

The information presented in the required supplemental schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows. Since the Plan uses the aggregate actuarial cost method, a schedule of funding progress is not required and has not been provided.

Valuation date	10/1/02
Actuarial cost method	Aggregate
Amortization method	N/A
Remaining amortization	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	9% per year compounded annually, net of investment related expenses
Projected salary increases*	6%
Cost of living adjustments	N/A

*Includes inflation at 4%

COMBINING STATEMENTS

NONMAJOR ENTERPRISE FUNDS

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services be financed or recovered primarily through user charges.

- **Solid Waste Fund** - The solid waste fund provides collection service for trash removal. Solid waste expenses are primarily for curbside collections.
- **Sanitary Sewer Construction Fund** - The sanitary sewer construction fund accounts for the development and construction of a sanitary sewer system to the unsewered areas of the community.

VILLAGE OF KEY BISCAYNE, FLORIDA

COMBINING BALANCE SHEET

NONMAJOR ENTERPRISE FUNDS

SEPTEMBER 30, 2003

	Solid Waste	Sanitary Sewer Construction	Total Nonmajor Enterprise Funds
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 73,458	\$ -	\$ 73,458
Receivables, net	120,648	-	120,648
Total current assets	<u>194,106</u>	<u>-</u>	<u>194,106</u>
Noncurrent assets:			
Capital assets not being depreciated	-	463,915	463,915
Total noncurrent assets	<u>-</u>	<u>463,915</u>	<u>463,915</u>
Total assets	<u>194,106</u>	<u>463,915</u>	<u>658,021</u>
<u>LIABILITIES</u>			
Current liabilities:			
Current portion of revolving loan	-	17,242	17,242
Noncurrent liabilities:			
Revolving loan	-	413,444	413,444
Total liabilities	<u>-</u>	<u>430,686</u>	<u>430,686</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	-	33,229	33,229
Unrestricted	194,106	-	194,106
Total net assets	<u>\$ 194,106</u>	<u>\$ 33,229</u>	<u>\$ 227,335</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS NONMAJOR ENTERPRISE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

	<u>Solid Waste</u>	<u>Sanitary Sewer Construction</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating revenues:			
Charges for services	\$ 313,492	\$ -	\$ 313,492
Operating expenses:			
General and administrative	273,076	-	273,076
Total operating expenses	<u>273,076</u>	<u>-</u>	<u>273,076</u>
Operating income	<u>40,416</u>	<u>-</u>	<u>40,416</u>
Non-operating revenues (expense):			
Interest income	903	648	1,551
Interest expense	<u>-</u>	<u>(6,288)</u>	<u>(6,288)</u>
Total non-operating revenues (expenses)	<u>903</u>	<u>(5,640)</u>	<u>(4,737)</u>
Income (loss) before transfers	41,319	(5,640)	35,679
Transfers in	-	10,067	10,067
Transfers out	<u>-</u>	<u>(330)</u>	<u>(330)</u>
Net income	<u>41,319</u>	<u>4,097</u>	<u>45,416</u>
Net assets, beginning	<u>152,787</u>	<u>29,132</u>	<u>181,919</u>
Net assets, ending	<u>\$ 194,106</u>	<u>\$ 33,229</u>	<u>\$ 227,335</u>

VILLAGE OF KEY BISCAYNE, FLORIDA

COMBINING STATEMENTS OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

	Solid Waste	Sanitary Sewer Construction	Total Nonmajor Enterprise Funds
Cash flows from operating activities:			
Receipts from customers and users	\$ 261,528	\$ -	\$ 261,528
Payments to suppliers	<u>(273,076)</u>	<u>-</u>	<u>(273,076)</u>
Net cash used by operating activities	<u>(11,548)</u>	<u>-</u>	<u>(11,548)</u>
Cash flows from non-capital financing activities:			
Transfers from other funds	-	10,067	10,067
Transfers to other funds	<u>-</u>	<u>(330)</u>	<u>(330)</u>
Net cash provided by non-capital financing activities	<u>-</u>	<u>9,737</u>	<u>9,737</u>
Cash flows from capital and relating financing activities:			
Net payments from revolving loan	-	(339,780)	(339,780)
Interest paid	<u>-</u>	<u>(6,288)</u>	<u>(6,288)</u>
Net cash used by capital and related financing activities	<u>-</u>	<u>(346,068)</u>	<u>(346,068)</u>
Cash flows from investing activities:			
Interest received	<u>903</u>	<u>648</u>	<u>1,551</u>
Net cash provided by investing activities	<u>903</u>	<u>648</u>	<u>1,551</u>
Net decrease in cash and cash equivalents	(10,645)	(335,683)	(346,328)
Cash and cash equivalents, beginning	<u>84,103</u>	<u>335,683</u>	<u>419,786</u>
Cash and cash equivalents, ending	<u>\$ 73,458</u>	<u>\$ -</u>	<u>\$ 73,458</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 40,416</u>	<u>\$ -</u>	<u>\$ 40,416</u>
Adjustments to reconcile operating income to net cash used by operating activities:			
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(72,276)	-	(72,276)
Increase (decrease) in:			
Due to other funds	<u>20,312</u>	<u>-</u>	<u>20,312</u>
Total adjustments	<u>(51,964)</u>	<u>-</u>	<u>(51,964)</u>
Net cash used by operating activities	<u>\$ (11,548)</u>	<u>\$ -</u>	<u>\$ (11,548)</u>



STATISTICAL SECTION

VILLAGE OF KEY BISCAYNE, FLORIDA

GOVERNMENT-WIDE EXPENSES BY FUNCTION

LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities					Business-type Activities					
	General Government	Public Works	Police	Fire	Parks and Recreation	Building, Zoning and Planning	Interest on Long-Term Debt	Stormwater	Solid Waste	Sanitary Sewer	Total
2003	\$ 5,691,379	\$ 963,676	\$ 4,787,090	\$ 4,821,645	\$ 826,695	\$ 1,252,012	\$ 1,064,028	\$ 634,361	\$ 273,076	\$ 6,288	\$ 20,320,250

(1) Information for fiscal year end 1994 - 2002 is unavailable in this format.

VILLAGE OF KEY BISCAYNE, FLORIDA

GOVERNMENT-WIDE REVENUES

LAST TEN FISCAL YEARS (1)

Fiscal Year	Program Revenues			General Revenues			
	Charges for <u>Services</u>	Operating Grants and <u>Contributions</u>	Capital Grants and <u>Contributions</u>	Taxes (2)	Unrestricted Investment <u>Earnings</u>	<u>Miscellaneous</u>	<u>Total</u>
2003	\$ 2,142,380	\$ 99,830	\$ 421,085	\$ 14,180,539	\$ 104,449	\$ 977,430	\$ 17,925,713

(1) Information for fiscal year end 1994 - 2002 is unavailable in this format.

(2) Includes property taxes, utility taxes, franchise fees and intergovernmental.

VILLAGE OF KEY BISCAYNE, FLORIDA
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Parks and Recreation</u>	<u>Public Works</u>	<u>Total</u>
1994	\$4,126,094	\$ 4,453,539	\$ 9,601,922 ⁽¹⁾	\$782,001	\$ 18,963,556
1995	5,524,305	4,294,606	211,159	573,844	10,603,914
1996	3,124,384	4,634,385	234,154	753,823	8,746,746
1997	3,577,170	5,017,882	239,029	660,780	9,494,861
1998	3,671,970	5,278,315	255,704	828,287	10,034,276
1999	4,173,995	5,644,903	293,664	730,521	10,843,083
2000	4,795,894	6,068,147	380,502	830,360	12,074,903
2001	5,015,845	6,172,932	452,804	933,096	12,574,677
2002	6,230,222	6,926,254	539,058	802,218	14,497,752
2003	5,550,648	8,351,743	782,065	963,247	15,647,703

Note: Includes general fund only (GAAP basis).

Note: General government includes economic development, building, zoning and planning, debt service, capital outlay and non-departmental expenditures.

(1) Includes acquisition of land for \$9,238,317 for the Village Green.

VILLAGE OF KEY BISCAYNE, FLORIDA

GENERAL GOVERNMENTAL REVENUES BY SOURCE

LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Property Taxes</u>	<u>Licenses and Permits</u>	<u>Inter- Governmental</u>	<u>Utility Taxes</u>	<u>Franchise Fees</u>	<u>Other (1)</u>	<u>Interest</u>	<u>Total</u>
1994	\$ 6,640,045	\$ 629,246	\$ 997,501	\$ 1,268,428	\$ 668,020	\$ 115,664	\$ 288,978	\$ 10,607,882
1995	6,820,807	351,152	788,062	1,257,179	652,844	665,086	369,540	10,904,670
1996	6,486,019	430,208	791,403	1,294,486	638,096	1,495,521	280,570	11,416,303
1997	6,495,465	531,401	766,638	1,555,812	667,815	463,171	248,646	10,728,948
1998	6,963,900	1,003,768	843,812	1,514,697	709,067	392,975	233,654	11,661,873
1999	7,012,714	668,672	807,924	1,621,473	740,031	1,295,001	231,820	12,377,635
2000	7,799,633	1,316,641	889,704	1,723,902	729,998	348,552	315,959	13,124,389
2001	8,738,608	1,308,229	930,169	1,772,208	738,513	736,881	291,408	14,516,016
2002	9,569,030	859,435	971,136	2,258,931	639,072	608,012	89,838	14,995,454
2003	11,317,161	970,001	999,391	2,251,876	611,502	427,553	55,129	16,632,613

Note: Includes general fund only (GAAP basis).

(1) Includes charges for services, grants, contributions and other.

VILLAGE OF KEY BISCAYNE, FLORIDA

UTILITY TAX REVENUE BY SOURCE LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Electricity</u>	<u>Telecom- munications</u>	<u>Gas</u>	<u>Fuel Oil</u>	<u>Water</u>	<u>Total</u>
1994	\$ 888,752	\$ 202,702	\$ 26,925	\$ 4,331	\$ 145,719	\$ 1,268,429
1995	875,704	186,780	38,130	3,920	152,645	1,257,179
1996	888,651	199,746	37,034	3,885	165,169	1,294,485
1997	1,032,445	274,768	42,066	3,616	202,918	1,555,813
1998	989,535	288,581	36,427	3,883	196,271	1,514,697
1999	992,319	380,934	35,121	4,262	208,837	1,621,473
2000	1,000,553	454,101	52,016	2,169	215,063	1,723,902
2001	1,018,973	492,442	62,833	245	197,715	1,772,208
2002	1,097,566	904,475 (1)	52,360	318	203,612	2,258,331
2003	1,162,030	825,739	61,137	486	202,394	2,251,786

FRANCHISE FEE REVENUE BY SOURCE LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Electricity</u>	<u>Cable Television</u>	<u>Telephone</u>	<u>Total</u>
1994	\$ 603,638	\$ 43,877	\$ 20,505	\$668,020
1995	589,031	43,899	19,914	652,844
1996	571,093	46,824	20,179	638,096
1997	578,195	62,342	27,277	667,814
1998	631,323	53,728	24,016	709,067
1999	653,799	56,997	29,235	740,031
2000	646,000	59,548	24,450	729,998
2001	678,316	67,855	37,342	783,513
2002	639,072	- (1)	- (1)	639,072
2003	611,502	-	-	611,502

(1) Simplified communications tax effective October 1, 2001 replaced the utility tax and franchise fees on telecommunications and cable television

VILLAGE OF KEY BISCAYNE, FLORIDA

PROPERTY TAX LEVIES AND COLLECTIONS

LAST TEN FISCAL YEARS

<u>Tax Year</u> ⁽¹⁾	<u>Fiscal Year</u>	<u>Assessed Value</u>	<u>Tax Levy</u>	<u>Total Collected</u> ⁽²⁾	<u>Percent Collected</u>
1994	1995	\$ 1,741,921,584	\$ 7,143,620	\$ 6,820,807	95.5%
1995	1996	1,767,457,005	6,716,337	6,418,864	95.6%
1996	1997	1,861,243,132	6,711,642	6,495,465	96.8%
1997	1998	2,003,049,232	7,222,995	6,948,521	96.2%
1998	1999	2,028,174,208	7,313,596	7,012,714	95.9%
1999	2000	2,232,457,904	8,050,243	7,799,633	96.9%
2000	2001	2,499,049,161	9,011,571	8,738,608	97.0%
2001	2002	2,731,833,645	9,850,992	9,515,138	96.6%
2002	2003	3,259,919,981	11,755,271	11,317,160	96.3%

(1) Assessments as of January 1 of the year listed; bills mailed in October of that year; taxes become delinquent at the end of April of the subsequent year. Initial property tax levy by the Village October, 1992.

(2) Collections reflect timely payment discounts of up to 4% and other adjustments.

VILLAGE OF KEY BISCAYNE, FLORIDA
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

<u>Tax Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Net Assessed Property Value</u>
1994	\$ 1,715,626,471	\$ 26,295,113	\$ 1,741,921,584
1995	1,744,363,535	23,093,470	1,767,457,005
1996	1,837,939,078	23,304,054	1,861,243,132
1997	1,978,219,125	24,830,107	2,003,049,232
1998	2,004,007,700	24,166,508	2,028,174,208
1999	2,205,371,189	27,086,715	2,232,457,904
2000	2,470,115,075	28,934,086	2,499,049,161
2001	2,701,084,167	30,749,478	2,731,833,645
2002	3,227,971,184	31,948,797	3,259,919,981
2003	3,617,880,990	43,233,556	3,661,114,546

Source: Miami-Dade County Property Appraiser's Office

Note: Assessed values equal the estimated actual value.

VILLAGE OF KEY BISCAYNE, FLORIDA

PROPERTY TAX RATES DIRECT AND OVERLAPPING GOVERNMENTS

LAST TEN FISCAL YEARS

Village of <u>Key Biscayne</u>		<u>Miami-Dade County</u>			<u>State</u>			<u>School District</u>			
<u>Fiscal Year</u>	<u>Village Millage</u>	<u>Operating Millage</u>	<u>Debt Service Millage</u>	<u>Total County Millage</u>	<u>SFWMD Millage</u>	<u>FIND Millage</u>	<u>Total State Millage</u>	<u>Operating Millage</u>	<u>Debt Service Millage</u>	<u>Total School Millage</u>	<u>Total</u>
1994	4.101	7.253	0.817	8.070	0.497	0.049	0.546	9.503	0.842	10.345	23.505
1995	3.800	6.828	0.789	7.617	0.547	0.040	0.587	9.373	1.016	10.389	22.822
1996	3.606	6.469	0.774	7.243	0.572	0.038	0.610	9.356	1.010	10.366	22.264
1997	3.606	6.023	0.929	6.952	0.597	0.050	0.647	9.356	1.106	10.462	22.083
1998	3.606	6.023	0.837	6.860	0.597	0.047	0.644	9.182	0.978	10.160	21.704
1999	3.606	5.809	0.816	6.625	0.597	0.044	0.641	8.654	0.990	9.644	20.937
2000	3.606	5.751	0.652	6.403	0.597	0.041	0.638	8.702	0.915	9.617	20.715
2001	3.606	5.713	0.552	6.265	0.697	0.039	0.736	8.528	0.848	9.376	20.434
2002	3.606	5.889	0.390	6.279	0.697	0.039	0.736	8.482	0.770	9.252	20.324
2003	3.606	5.969	0.285	6.254	0.597	0.039	0.636	8.418	0.682	9.100	20.682

(1) Village established its own fire district effective October 1, 1993

Source: Miami-Dade County Property Appraiser's Office

VILLAGE OF KEY BISCAYNE, FLORIDA

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR NET BONDED DEBT TO GENERAL GOVERNMENTAL EXPENDITURES

LAST TEN FISCAL YEARS

Fiscal <u>Year</u>	<u>Principal</u>	<u>Interest (1)</u>	Total Debt Service (2)	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
1994	\$ -	\$ 194,989	\$ 194,989	\$ 19,053,562	01.0%
1995	755,000	384,661	1,139,661	10,603,914	10.7%
1996	785,000	351,089	1,136,089	8,746,746	13.0%
1997	820,000	315,901	1,135,901	9,494,861	12.0%
1998	855,000	277,825	1,132,825	10,034,276	11.3%
1999	895,000	241,329	1,136,329	10,843,083	10.5%
2000	935,000	595,767	1,530,767	12,074,903	12.7%
2001	975,000	631,875	1,606,875	12,574,677	12.8%
2002	1,015,000	1,420,845	2,435,845	14,497,752	16.8%
2003	1,415,000	590,737	2,005,737	15,647,703	12.8%

Note: Includes general fund only. No debt prior to 1994.

(1) Excludes bond issuance and other costs

(2) Debt service on revenue bonds

VILLAGE OF KEY BISCAYNE, FLORIDA

SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT GENERAL OBLIGATION BONDS (IN THOUSANDS)

SEPTEMBER 30, 2003

<u>Jurisdiction</u>	<u>Taxable Property Value (1)</u>	<u>Net General Obligation Bonded Debt Outstanding</u>	<u>Percentage Applicable to Key Biscayne</u>	<u>Amount Applicable to Key Biscayne</u>
<u>Direct:</u>				
Village of Key Biscayne	\$ 3,661,115	<u>\$ 28,840</u>	100.00%	<u>\$ 28,840</u>
<u>Overlapping:</u>				
Miami-Dade County	130,106,101	247,541 (2)	2.81% (3)	6,966
Miami-Dade County Schools	131,120,085	<u>790,200 (2)</u>	2.79% (3)	<u>22,064</u>
		<u>\$ 1,037,741</u>		<u>\$ 29,030</u>

(1) Source: Miami-Dade County Property Appraiser's Office - Taxable Property Value reflects January 1, 2003 amounts.

(2) Source: Miami-Dade County Finance Department - Net General Obligation Bonded Debt outstanding figures are as of September 30, 2003.

(3) Based on the percentage of the County's and School Board's tax roll valuation comprised of real and personal property situated in the Village of Key Biscayne.

VILLAGE OF KEY BISCAYNE, FLORIDA

RATIO OF NET BONDED DEBT TO ASSESSED VALUE AND PER CAPITA LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value (1)</u>	<u>Net Bonded Debt (2)</u>	<u>Ratio of Net Bonded Debt to Assessed Value</u>	<u>Net Bonded Debt Per Capita</u>
1994	8,887	\$1,560,057,130	\$9,200,000	0.59%	\$1,035
1995	8,894	1,741,921,584	8,445,000	0.48%	949
1996	8,886	1,767,457,005	7,660,000	0.43%	862
1997	8,937	1,861,243,132	6,840,000	0.37%	765
1998	9,471	2,003,049,232	5,985,000	0.30%	632
1999	9,689	2,028,174,208	22,290,000	1.10%	2,300
2000	10,507	2,223,956,515	21,220,000	0.95%	2,190
2001	10,607	2,499,049,161	30,120,000	1.21%	2,823
2002	10,698	2,731,833,645	29,935,000	1.10%	2,798
2003	11,100	3,259,919,981	29,271,000	0.90%	2,637

Note: Village had no debt prior to 1994.

(1) Net bonded assessed actual value of taxable property

(2) Net bonded debt represents revenue bonds

VILLAGE OF KEY BISCAYNE, FLORIDA

REVENUE BOND COVERAGE

STORMWATER REVENUE BONDS (SERIES 1999) (1)

LAST TEN FISCAL YEARS

Fiscal Year	Gross Stormwater Fee Revenue	Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1999	\$ 480,586	\$ 42,773	\$437,813	\$ -	\$ 335,412	\$ 335,412	130.53%
2000	494,955	33,453	461,502	135,000	281,875	416,875	110.71%
2001	518,961	79,708	439,253	125,000	291,622	416,622	105.43%
2002	559,239	85,091	474,148	130,000	336,253	466,253	101.69%
2003	551,774	86,829	464,945	195,000	273,613	468,613	99.22%

VILLAGE OF KEY BISCAYNE, FLORIDA

DEMOGRAPHICS STATISTICS

POPULATION

Estimates of Population by Age

<u>Year</u>	<u>Under 20 Years</u>		<u>20 to 64 Years</u>		<u>65 Years or Older</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Total</u>
2000	2,697	26	6,176	59	1,634	10,507

Estimates of Population by Race

	<u>Anglo</u>	<u>Black</u>	<u>Hispanic</u>	<u>Total</u>
2000	5,228	48	5,231	10,507

INCOME*

Per Capita Income

	<u>Anglo</u>	<u>Black</u>	<u>Hispanic</u>	Average Per <u>Capita</u>
2000	\$ 62,542	\$ 13,417	\$ 46,682	\$ 54,612

UNEMPLOYMENT RATES (Percent)

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Miami-Dade County*	7.9	6.8	7.8	7.1	6.7	5.9	5.6	5.7	7.4	7.3
Village of Key Biscayne	3.6	3.1	3.6	3.3	3.1	2.7	2.6	2.8	3.2	3.2

* Source: U.S. Bureau of Labor Statistics.

VILLAGE OF KEY BISCAYNE, FLORIDA

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS

LAST TEN FISCAL YEARS

Fiscal Year	Total Permits Issued	<u>Residential</u>		<u>Commercial</u>		Total of Construction	<u>(000s Omitted)</u>		Village Bank Deposits (2)
		# of Permits	Valuation	# of Permits	Valuation		County Bank Deposits (1) (2)		
1994	2,205	2,081	\$25,410,312	124	\$45,567,390	\$70,977,702	\$ 17,524,140	(1)	\$ -
1995	2,857	2,568	33,820,503	289	2,099,661	35,920,164	17,938,762	(1)	-
1996	3,171	3,060	65,318,655	111	1,231,097	66,549,752	14,561,654	(1)	-
1997	3,570	3,402	82,481,700	168	667,328	83,149,028	34,664,829	(1)	-
1998	3,002	2,879	129,200,900	106	3,176,031	132,376,931	36,659,805		347,178
1999	2,711	2,416	94,287,095	295	56,792,994	151,080,089	39,633,149		377,060
2000	1,793	1,641	85,244,371	152	9,359,770	94,604,141	38,539,107		364,973
2001	749	667	59,607,528	82	10,485,477	70,093,005	45,064,000		328,602
2002	856	769	23,206,296	87	1,101,721	24,308,017	51,297,000		311,837
2003	1,324	1,178	22,695,672	146	12,454,140	35,149,812	56,263,926		328,303

(1) State of Florida, Division of Financial Services, as of June 30 of each respective year through fiscal year 2002. Information is for Miami-Dade County, which the Village of Key Biscayne was a part of.

(2) Deposits within Village of Key Biscayne limits. Information for all years presented was not available from Federal Deposit Insurance Corporation, from fiscal year 2003 and forward.

VILLAGE OF KEY BISCAYNE, FLORIDA

PRINCIPAL TAXPAYERS

SEPTEMBER 30, 2003

<u>Taxpayer</u>	<u>Taxable Valuation</u>	<u>% of Total Assessed Valuation</u>
Sonesta Beach Resort, LP	\$ 39,921,710	1.22%
GB Hotel Partners, Ltd.	26,929,342	0.83%
Key Biscayne Ocean Club Ltd. Partners	17,486,700	0.54%
Ocean Club Community Association	12,500,000	0.38%
PITU, Inc.	9,657,016	0.30%
Galleria of Key Biscayne, Inc.	8,741,107	0.27%
Claudio Alvarez	8,505,544	0.26%
Red Dragon Sands, LTD.	8,470,400	0.26%
John Dasburg	6,828,983	0.21%
Yoyot Realty, Inc.	<u>5,849,394</u>	<u>0.18%</u>
	<u>\$ 144,890,196</u>	<u>4.45%</u>

Source: Miami-Dade County Appraiser's Office

VILLAGE OF KEY BISCAYNE, FLORIDA

MISCELLANEOUS STATISTICAL DATA

SEPTEMBER 30, 2003

Date of Incorporation	1991
Form of Government	Council-Manager
Area	1.25 Square Miles
Miles of Street	22.4 Linear Miles
Fire Protection:	
Number of Stations	1
Police Protection:	
Number of Stations	1
Education:	
Attendance Centers	2
Number of Students	1,480
Number of Teachers	90
Miami-Dade County Water & Sewer Authority	
Number of Customers	1,957
Average Daily Consumption	12,434,314 gallons
Sewers:	
Number of Customers	926
Fire Hydrants	249
Building Permits Issued	856
Recreation and Culture:	
Number of Parks	3
Number of Libraries	1 (Operated by Miami-Dade County)
Number of Tennis Centers	1
Number of Recreational Centers	1
Employees:	
Full Time	96

COMPLIANCE SECTION

**Report of Independent Certified Public Accountants on Compliance and on
Internal Control over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Honorable Mayor, Village Council and Village Manager
Village of Key Biscayne, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Key Biscayne, Florida (the Village) as of September 30, 2003 and for the year then ended which collectively comprise the Village's basic financial statements, and have issued our report dated December 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Mayor, Village Council and Village Manager
Village of Key Biscayne, Florida
Page Two

However, we noted one matter that we have reported to management in the schedule of findings and questioned costs accompanying this report.

This report is intended solely for the information and use of the Mayor, Village Council, management and regulatory agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin Cohen & Holtz LLP

Miami, Florida
December 26, 2003

**Management Letter in Accordance with the Rules of the
Auditor General of the State of Florida**

Honorable Mayor, Village Council and Village Manager
Village of Key Biscayne, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Key Biscayne, Florida (the Village) as of and for the year ended September 30, 2003 which collectively comprise the Village's basic financial statements, and have issued our report thereon dated December 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Report of Independent Certified Public Accountants on Compliance and on Internal Control over Financial Reporting, a Report of Independent Certified Public Accountants on Compliance Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and a Schedule of Findings and Questioned Costs. Disclosures in those reports, which are dated December 26, 2003, should be considered in conjunction with this management letter.

In connection with our audit of basic financial statements of the Village for the year ended September 30, 2003, we report the following in accordance with Chapter 10.550 Rules of the Auditor General, *Local Government Entity Audits*, which requires that this report specifically address but not be limited to the matters outlined in Rule 10.554(1)(g):

1. No inaccuracies, shortages, defalcations, fraud and/or violations of laws, rules, regulations and contractual provisions were reported in the preceding annual financial audit.
2. Recommendations made in the preceding annual financial audit have been addressed.
3. The Village, during fiscal year 2003, was not in a state of financial emergency as defined by Florida Statutes 218.503(1). The Village has no deficit fund balances for two consecutive years.
4. Recommendations to improve the Village's present financial management and accounting procedures are accompanying this report in the schedule of findings and questioned costs.
5. The Village was in compliance with Section 218.415, Florida Statutes, regarding the investment of public funds.

Honorable Mayor, Village Council and Village Manager
Village of Key Biscayne, Florida
Page Two

6. During the course of our audit, nothing came to our attention that caused us to believe that the Village:
 - a. Was in violation of any laws, rules or regulations and contractual provisions.
 - b. Made any illegal or improper expenditures.
 - c. Had improper or inadequate accounting procedures.
 - d. Failed to record financial transactions.
 - e. Had other inaccuracies, shortages, defalcations or instances of fraud.
7. The annual financial report for the year ended September 30, 2003 has been filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes and is in agreement with the audited financial statements for the fiscal year ended September 30, 2003.
8. The Village was incorporated by Laws of Florida 90-142. There were no component units related to the Village.
9. During the course of our audit, we applied financial condition assessment procedures pursuant to Rule 10.566(8). It is management's responsibility to monitor the Village's financial condition, and our financial condition assessment, which was performed as of the Village's fiscal year end, was based on representations made by management and the review of financial information provided by the Village. There were no findings that identified deteriorating financial conditions.

This report is intended solely for the information and use of the Mayor, Village Council, management, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin Cohen & Holtz LLP

Miami, Florida
December 26, 2003

**Report of Independent Certified Public Accountants on Compliance
Applicable to Each Major Program and Internal Control over
Compliance in Accordance with OMB Circular A-133**

Honorable Mayor, Village Council and Village Manager
Village of Key Biscayne, Florida

Compliance

We have audited the compliance of the Village of Key Biscayne, Florida (the Village) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to its major federal awards program for the fiscal year ended September 30, 2003. The Village's major federal awards program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal awards program is the responsibility of the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133, requires that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have direct and material effect on a major federal awards program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village complied, in all material aspects, with the requirements referred to above that are applicable its major federal awards program and state financial assistance project for the year ended September 30, 2003.

Internal Control over Compliance

The management of the Village is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal awards programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could have a direct and material effect on each major federal awards programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Honorable Mayor, Village Council and Village Manager
Village of Key Biscayne, Florida
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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal awards program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Mayor, Village Council, management and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin Cohen + Holtz LLP

Miami, Florida
December 26, 2003

VILLAGE OF KEY BISCAYNE, FLORIDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

<u>Federal Grantor/Pass Through Grantor Programs</u>	<u>Federal CFDA Number</u>	<u>Federal Grant/ Contract Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Treasury</u>			
Federal Equitable Sharing Program	N/A	N/A	\$ <u>498,216</u>
<u>U.S. Department of Justice</u>			
Pass through Miami-Dade County:			
Byrne Grant	16.579	HSB423	86
Pass through the Florida Department of Law Enforcement:			
Law Enforcement Block Grant	16.592	03-CJ-2Q-11-12-02-094	<u>10,000</u>
<i>Total U.S. Department of Justice</i>			<u>10,086</u>
Total Expenditures of Federal Awards			\$ <u>508,302</u>

N/A - Not available

See note to schedule of expenditures of federal awards.

VILLAGE OF KEY BISCAYNE, FLORIDA

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Village of Key Biscayne and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

VILLAGE OF KEY BISCAYNE, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified?

___ yes X no

Reportable condition(s) identified not considered to be material weakness?

___ yes X none reported

Non-compliance material to financial statements noted?

___ yes X no

Federal Awards Programs

Internal control over major awards programs:

Material weakness(es) identified?

___ yes X no

Reportable condition(s) identified not considered to be material weakness?

___ yes X none reported

Type of auditor's report issued on compliance for major federal awards program:

Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?

___ yes X no

Identification of federal major awards program:

Federal Program

Federal CFDA No.

Federal Equitable Sharing Program

N/A

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low risk auditee for audit of federal awards program?

___ yes X no

VILLAGE OF KEY BISCAYNE, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION II – FINANCIAL STATEMENT FINDINGS

Other Matter

03-1. Accounting Treatment for Expenditures

At the end of each fiscal year, Village Council and Management establish reservations of fund balance that are presented in the financial statements. In the ensuing year, expenditures are generally made against those reserves. We noted that the Village has on occasion charged the expenditure directly against the reserve rather than presenting the expenditure as such in the financial statements which has the effect of flowing into and reducing the established reserves. Without this methodology, all expenditures of the Village would not be properly accounted for and presented in accordance with generally accepted accounting principles.

Recommendation

We recommend, as it relates to reservations of fund balance, that in order to properly reflect revenues and expenditures of the Village in the financial statements, and in accordance with generally accepted accounting principles, charges against reserves should first be presented as an expenditure which will then have the effect of reducing the related reserve.

Management Response

The Village will continue to record items previously reserved and designated in the manner established in prior years, directly against those reserves/designations. A reconciliation process to preserve the proper methodology of flowing such items into and out of respective departments will be reviewed annually.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

VILLAGE OF KEY BISCAYNE, FLORIDA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FISCAL YEAR ENDED SEPTEMBER 30, 2003

PRIOR YEAR COMMENTS AND STATUS

None